

Background
GAO Report on BPA's Financial Performance and Prospects
Aug. 9, 2004

In April 2003, the House Appropriations Subcommittee on Energy and Water Development asked the Government Accountability Office (formerly the General Accounting Office) to audit BPA's finances and recent rate increases. GAO's final report is entitled, "Bonneville Power Administration: Better Management of BPA's Obligation to Provide Power is Needed to Control Future Costs." It is posted at <http://www.gao.gov/cgi-bin/getrpt?GAO-04-694>.

To make this report and other future external reviews of BPA activities readily available to customers and interested parties, BPA will post this and all subsequent GAO and DOE Inspector General reports on BPA issues, plus related information, at http://www.bpa.gov/corporate/About_BPA/audits/.

GAO's report is an independent, third-party review of BPA's financial challenges and policy choices over the last several years. GAO and BPA see the root cause of the agency's challenges very similarly. GAO's recommendations on BPA's future power supply and rates are relevant to this summer's Regional Dialogue public discussion. The agency intends to follow-up on all of the recommendations and will also listen to comments from other stakeholders during the Regional Dialogue comment period before resolving these issues.

Questions and Answers:

What does GAO recommend?

GAO recommended that BPA reduce its risk of over-committing power sales by:

1. Defining rights to purchase the firm output of the federal system so that the power BPA sells at its lowest, cost-based rate equals the firm output of the existing federal system,
2. Charging incremental (tiered) rates for power sold beyond that amount to reflect BPA's costs of acquisition,
3. Studying the feasibility of issuing a rule under the Administrative Procedures Act to set these limits and terms of incremental rates, and
4. Identifying specific activities, resources and time frames for implementing BPA's risk management initiatives.

What is BPA's response?

BPA concurs generally with GAO's conclusions and recommendations.

What has BPA produced since that may further relate to GAO's findings?

GAO completed its investigation in April 2004. BPA has since published for public comment its Regional Dialogue Policy Proposal for Power Supply Role for Fiscal Years 2007-2011. Comments are being taken through Sept. 22. The proposed policy lays out how and by what processes BPA intends to complete resolution of the “open-ended obligation” GAO cites.

How do BPA’s proposals in the Regional Dialogue compare with GAO’s recommendations?

In general, there is great consistency between GAO’s recommendations and BPA’s Regional Dialogue proposal. Both call for clarifying BPA’s load obligation and reducing its risks.

GAO recommends implementing incremental rates and implies the sooner, the better. BPA’s Regional Dialogue proposal calls for exploring the tiered rates concept, but not for use until after 2007, when long-term contract rights will be defined. In any case, given current load and resource expectations, BPA expects little if any public preference load would be exposed to an upper tier rate until the next rate period after 2011.

What will BPA and the Department of Energy do to respond to GAO’s report?

When a GAO report recommends a specific action to DOE, DOE responds by letter within 60 days to Congress, the Office of Management and Budget and GAO. The letter explains the actions DOE will take in response to the recommendations or, if DOE does not agree with the recommendations, the reasons for the disagreements. BPA will work with DOE to fulfill this requirement. Since BPA concurs with GAO’s recommendations and already is working to implement them through the Regional Dialogue, this is not expected to be difficult.

What does GAO see as BPA’s advantages and disadvantages in marketing power?

GAO found that BPA’s chief financial advantage is that its system includes 31 hydroelectric dams that generally have low power production costs. It noted that BPA has access to federally financed debt, which generally offers lower interest rates than those available to private-sector entities.

GAO also found that BPA has disadvantages that have increased its costs over time. Specifically, GAO said:

- BPA is required by law to meet the demands of Northwest utilities, an open-ended obligation;
- BPA has other costly obligations such as providing financial benefits to (small farm and residential consumers served by) investor-owned utilities and protecting fish and wildlife that increase its costs relative to competing sources of electricity.
- Drought and other factors have also increased BPA’s costs in recent years.

What does GAO see as the major source of BPA’s recent financial difficulties and rate increases?

GAO found that: “BPA’s open-ended obligation to be the net provider of wholesale power to the region is the major cause of its recent cost increases.” It suggested the structure of BPA’s power rates also contributed, because “BPA did not charge incremental rates equal to its costs of acquiring additional power.” While BPA has work underway to better reflect the costs and limit the liability of serving unlimited load, this fundamental issue has not yet been resolved, and materials existing as of April 2004 lack specificity, GAO said.

What else did GAO find in its review of BPA’s financial situation and prospects?

GAO also found:

- BPA costs reflected in its cost-based rates more than doubled between 1972-2001, while average costs of some other power sources fell.
- BPA has taken steps to reduce costs or control the extent of future cost increases in power generation, fish and wildlife programs and internal operations.
- BPA is improving its risk management process.

How will this GAO report be used?

The requesting House Appropriations Committee is likely to echo the GAO’s recommendations in the report accompanying the final fiscal year 2005 Energy and Water Appropriations bill.

Why is BPA posting external audits on its web site?

This new service is part of BPA’s commitment to being open and transparent in our operations. BPA typically receives several audits each year on aspects of its operations by GAO, the DOE Inspector General, or both. These documents are posted on the web sites of the investigating agencies. By linking to these documents from its own web site and posting relevant background information with them, BPA is making it easier for its customers and interested members of the public to track and understand these external reviews and how BPA is responding to them.